

# Statistics in focus

## ECONOMY AND FINANCE

THEME 2 – 34/2000

### BALANCE OF PAYMENTS

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# European Union's FDI Links with EFTA Countries

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*Foreign Direct Investment (FDI) statistics give information on one of the major aspects of globalisation. FDI (see definition) is a supplement or an alternative to cross border trade in goods and services. For Balance of Payments statistics, Eurostat maintains a FDI database that comprises harmonised and thus comparable data on inward and outward FDI flows, income and positions. It gives the geographical breakdown of FDI and it also provides users with detailed data by sector of activity.*

## EFTA is the second partner for EU FDI next to the USA

EFTA (Switzerland, Norway, Iceland and Liechtenstein) is the second most important economic zone for EU FDI, behind the USA. In fact, at the end of 1997 the EU held FDI assets in EFTA countries worth ECU 64 bn, i.e. 10% of the total extra EU assets, and liabilities worth ECU 112 bn (22% of the total extra EU liabilities) were owed by EU countries to EFTA investors. Since the USA share in extra EU FDI stocks was more than 60% both on the assets and liabilities side, it follows that the EFTA share is the bulk of the remainder (more than half on the liabilities side and more than a quarter on the assets side).

On the other hand, the European Union is the most important EFTA partner for both outward and inward FDI. In 1997 EU liabilities were three times as much as those of the USA, and EU assets were almost twice as much. Japan, on the other hand, had a negligible position with EFTA countries.

Among the Member States, Germany and France had a fairly balanced position, with about a fifth and a tenth, respectively, of the EU assets and liabilities. The other two countries most linked to the EFTA zone, the Netherlands and the United Kingdom, show a different picture. The Netherlands held the largest share of the EU assets, slightly more than a fifth, while Dutch liabilities were less than 10% of the total. On the contrary, British liabilities recorded the second largest share (16%), but the United Kingdom held only 4% of total EU assets.

Table 1: FDI positions with EFTA Countries (1997 data)

	Assets (ECU mio)	Liabilities (ECU mio)	Assets (% of total EU)	Liabilities (% of total EU)
European Union	64 265	112 323	100.0%	100.0%
Germany	12 315	20 565	19.2%	18.3%
France	7 065	12 714	11.0%	11.3%
Netherlands	13 336	8 632	20.8%	7.7%
UK	2 460	18 188	3.8%	16.2%
Other EU	29 089	52 224	45.2%	46.5%
USA	35 009	37 432	-	-
Japan	2 707	1 424	-	-

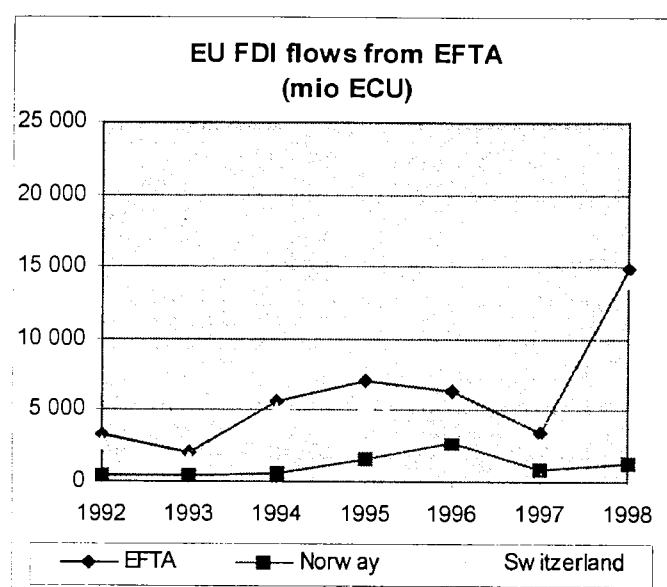
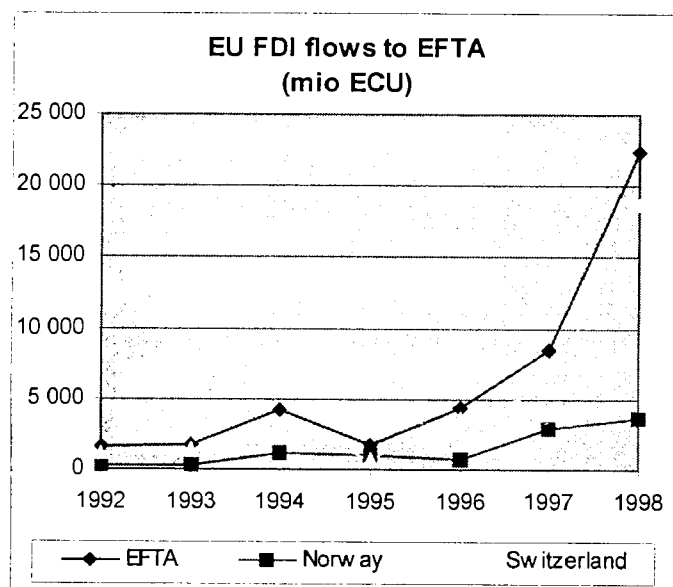




## EU FDI flows with EFTA increased further in 1998

Both the FDI flows into and out of the EFTA countries enjoyed a significant boost in 1998. The EU investors invested more than ECU 22 bn in EFTA, i.e. about one and half times more than a year earlier. In the same period, EFTA shares in extra-EU outflows increased by three percentage points, from 9% to 12%. On the other side, EFTA investments in the EU amounted to almost ECU 15 bn, more than four times as much as in 1997. Their shares in extra-EU inflows also showed a remarkable growth, increasing from 9% in 1997 to 17%

in 1998. While capital flows to EFTA showed a steady increase since 1992, with the exception of 1995, EFTA investments in the EU followed a more complex pattern. In fact, after a decrease in 1993, they followed an inverted U-shaped pattern between 1993 and 1997, and then they started growing again. It is also clear from the two graphs that the country leading the trend and creating the bulk of flows is Switzerland. In fact, Norwegian flows are less important.



## Manufacturing and Financial Intermediation are the dominant sectors for EU FDI with EFTA

The most important sector for EFTA foreign direct investments is Manufacturing. It covers about a third of 1997 EU liabilities and almost 40% of EU assets. Within this sector, the main branch is Petroleum, Chemicals and Rubber: about 10% of both assets and liabilities. The other important sectors are Financial Intermediation (23% of the assets and 25% of liabilities), Real Estate and Business Activity (respectively, 23% and 18%) and Trade and Repairs (9% and 12%). These three sectors

also showed a greater weight compared with the structure of the Extra EU positions. In particular, the share of Financial Intermediation is four percentage points higher than the EU average on the assets side, and three on the liability side. Similarly, the weight of Real Estate and Business Activity is three percentage points higher than the EU average on the assets side and five on the liability side.

Table 2: EU FDI flows to EFTA: Activity breakdown (mio ECU)

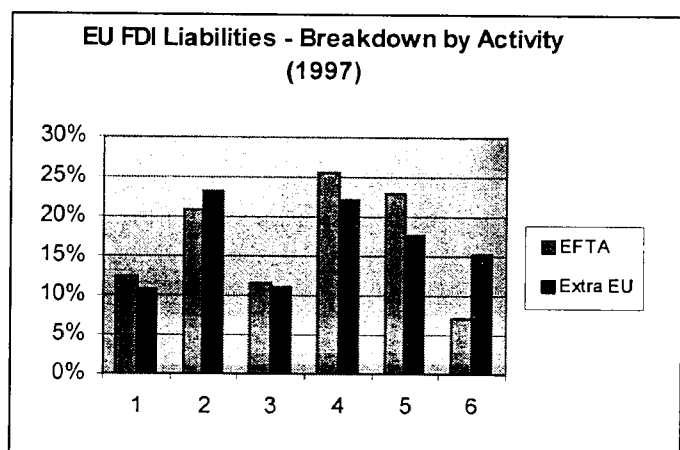
	1995	1996	1997	1998	EU FDI position (1997)
<b>Total</b>	<b>1 797</b>	<b>4 368</b>	<b>8 421</b>	<b>22 323</b>	<b>64 265</b>
Agriculture and Fishing	15	-103	3	-11	83
Mining and Quarrying	-523	-4	317	1 084	2 245
<b>Manufacturing</b>	<b>664</b>	<b>1 714</b>	<b>5 309</b>	<b>5 324</b>	<b>25 364</b>
food products	-27	366	-24	666	3 679
textiles and wood	457	200	-133	10	2 547
petroleum, chemicals & rubber	-1 054	1 452	2 988	69	6 561
metal and mechanicals	340	272	-67	335	3 722
office machinery and radio	42	227	36	-596	4 876
motor vehicles and transport	-1	-913	1 549	3 767	2 549
Electricity, Gas, Water	62	86	178	567	814
Construction	27	373	474	1 456	580
Trade and Repairs	288	1 200	80	102	5 807
Hotels and Restaurant	0	-73	103	324	283
Transport and Communication	204	-7	92	436	920
Financial Intermediation	448	126	26	10 798	15 010
Real Estate and Business Activity	593	855	1 630	1 913	11 713

Table 3: EU FDI flows from EFTA: Activity breakdown (mio ECU)

	1995	1996	1997	1998	EU FDI position (1997)
<b>Total</b>	<b>7 064</b>	<b>6 298</b>	<b>3 441</b>	<b>14 922</b>	<b>112 323</b>
Agriculture and Fishing	11	-291	25	-123	91
Mining and Quarrying	202	197	-372	-487	1 204
Manufacturing	3 261	-568	191	3 590	36 977
food products	1 262	14	-663	885	7 411
textiles and wood	403	-529	38	-15	2 521
petroleum, chemicals & rubber	988	-727	1 344	2 022	13 751
metal and mechanicals	230	-202	137	144	5 577
office machinery and radio	76	393	-32	111	3 504
motor vehicles and transport	246	-620	-1 003	588	1 810
Electricity, Gas, Water	7	520	142	9	1 400
Construction	56	1 740	552	-17	1 564
Trade and Repairs	402	1 598	-1 320	980	13 064
Hotels and Restaurant	13	18	111	-50	565
Transport and Communication	222	188	178	550	1 823
Financial Intermediation	-1 189	1 820	1 522	11 886	28 547
Real Estate and Business Activity	3 858	1 043	2 318	-1 814	25 781

The pattern followed by capital flows in these sectors in the last few years was very volatile. Their shares in the total varied widely and in several cases backflows were recorded. Manufacturing, and Petroleum, Chemicals and Rubber among Manufacturing, were the most volatile sectors, both on the inward and on the outward sides. Flows in the Trade and Repairs sectors and in

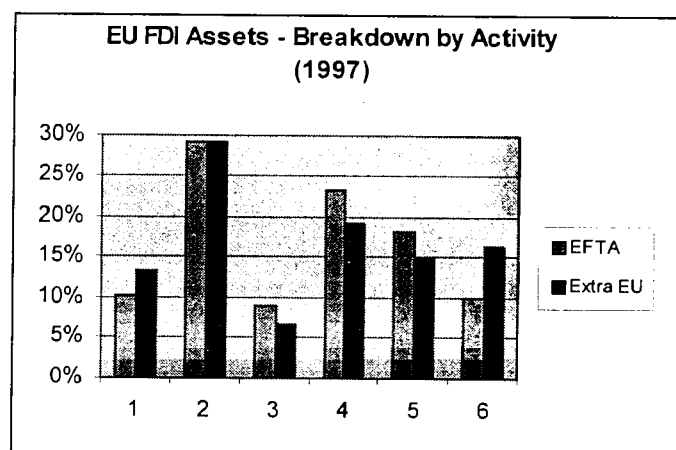
Real Estate and Business Activity were steadier, although in the latter a major backflow from the inflows from EFTA was recorded in 1998. The huge increase in the Financial Intermediation sector recorded in 1998 both in inflows and outflows is due to exceptional transactions between the UK and Switzerland.



1: Petroleum, Chemicals & Rubber

2: Manufacturing (excluding Petroleum, Chemicals and Rubber)

3: Trade and Repairs



4: Financial Intermediation

5: Real Estate and Business Activity

6: Others

## ➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

Foreign direct investment (FDI) is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the investor on the management of the enterprise. Formally defined, a direct investment enterprise is an unincorporated or incorporated enterprise in which a direct investor owns 10% or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

### FDI flows and positions

Through direct investment flows, an investor builds up a foreign direct investment position, that features on his balance sheet. This FDI position (sometimes called FDI stock) differs from the accumulated flows because of revaluation (changes in prices or exchange rates, and other adjustments like rescheduling or cancellation of loans, debt forgiveness or debt-equity swap



# Further information:

## ➤ Reference publications

Title European Union Direct Investment Yearbook 1999  
Catalogue No CA-26-99-425-EN-C Price EUR 30

## ➤ Databases

New Cronos, Domain Theme2/bop/FDI

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